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# Tactical Liquidity Management (How to make cash work in a low interest rate environment)


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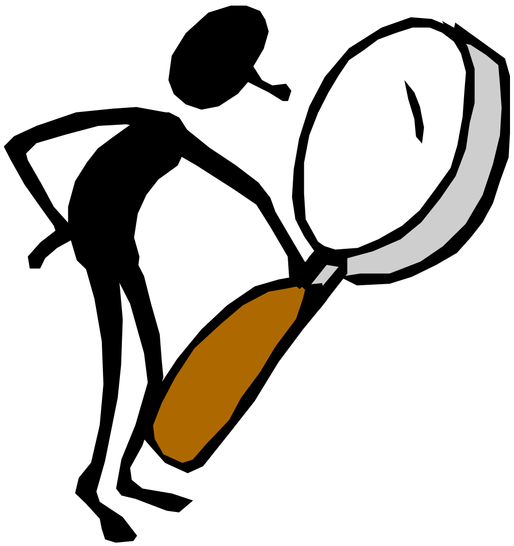
# Historical Perspective on Corporate Cash



- **Prior to 2008**
  - Commercial Paper
  - Money Markets
  - Auction Rates
- **2008 – 2012**
  - FDIC (unlimited) – Bank deposits/ECR
  - US Treasury Securities
- **2012 - 2013**
  - FDIC ($250k limit) – Bank deposits/ECR
  - US Treasury Securities
  - Money Markets
  - Commercial Paper
  - CDAR's

<u>% of Total</u>

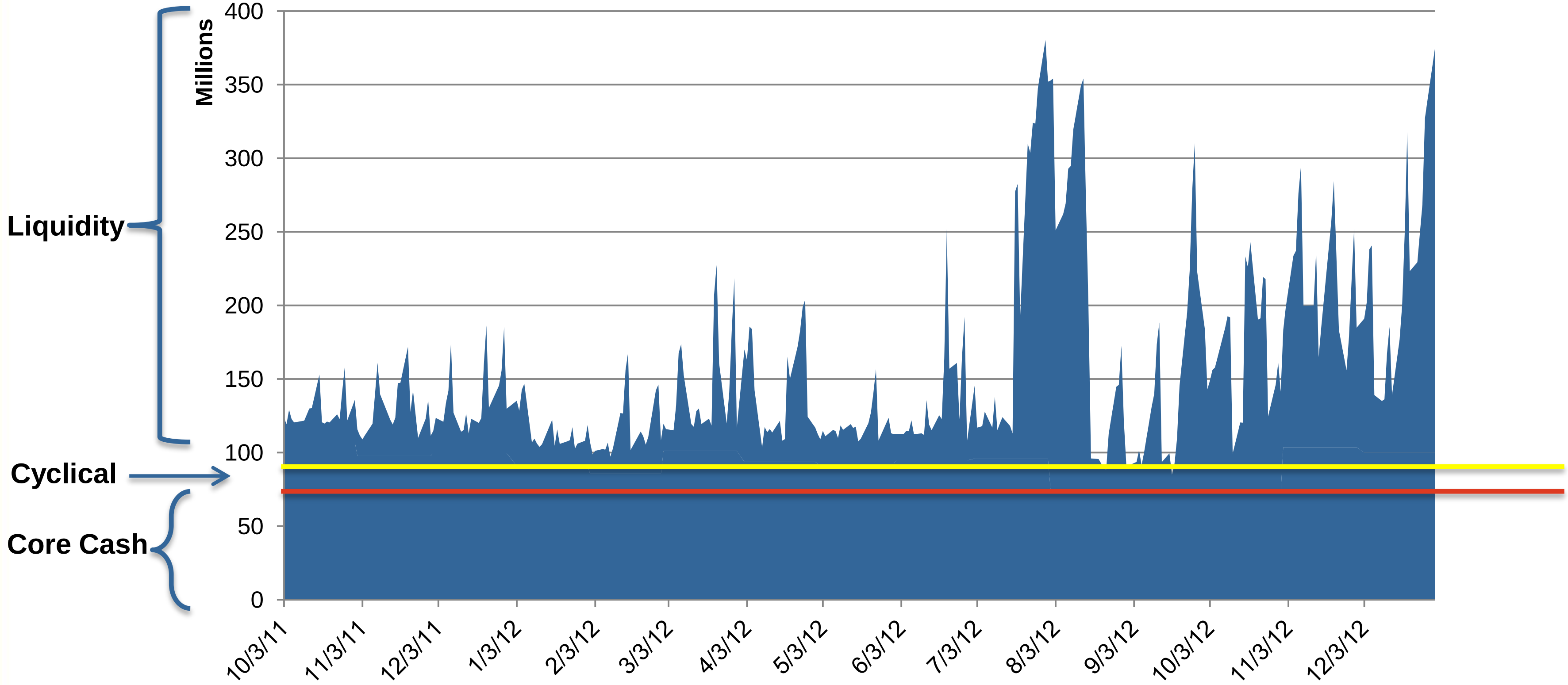
50%

74%

# Current Perspective on Corporate Cash

- 2013 has issued in the "Fiscal Cliff"
- Safety of money is over
- Floating NAV on money markets
- How do we measure risks – Credit Risks and Market Risks?  If we are going to measure risks, we want to get earn something for those risks.
- How much liquidity do we really need?

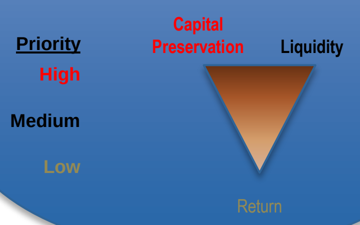
# Balance Sheet Cash



# Balance Sheet Cash Buckets

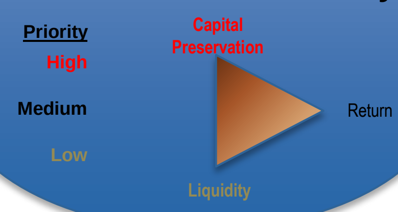
## Liquidity

- Typical Investments
  - ➢ Overnight
  - ➢ DDA/ECR
- Tenure 1- 7 days



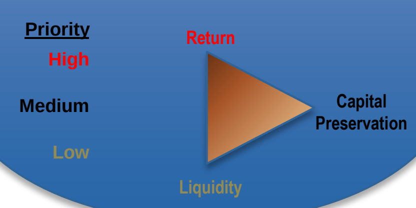

## Cyclical/Seasonal

- Typical Investments
  - ➢ VR Demand Notes
  - ➢ CP
  - ➢ CDRS
- Tenure – 30-90 days

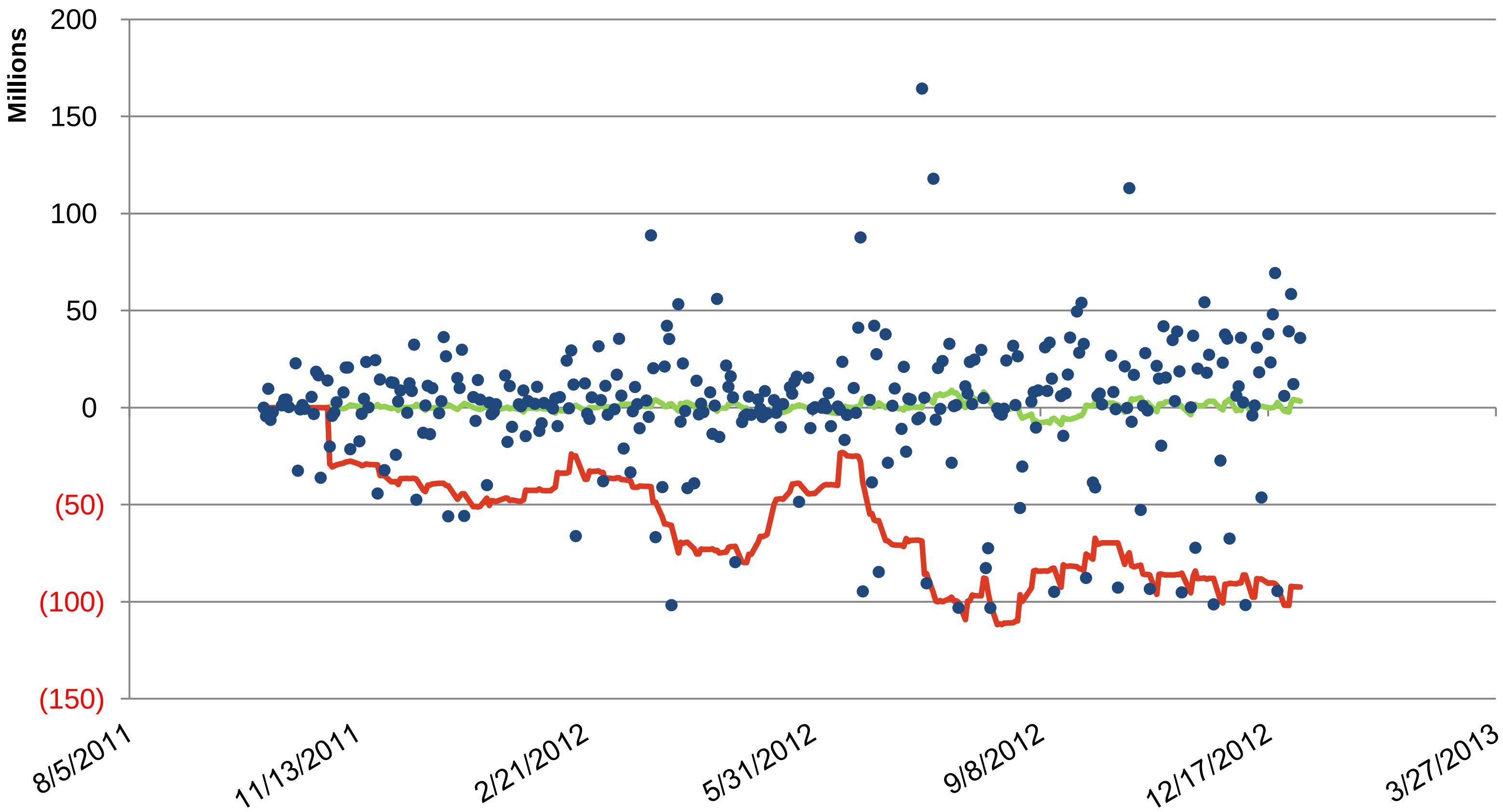



## Core Cash

- Typical Investments
  - ➢ Customized Portfolio
  - ➢ Stocks
  - ➢ Bonds
- Tenure – < 90 days



# Daily Cash Volatility
# Cash Flow at Risk



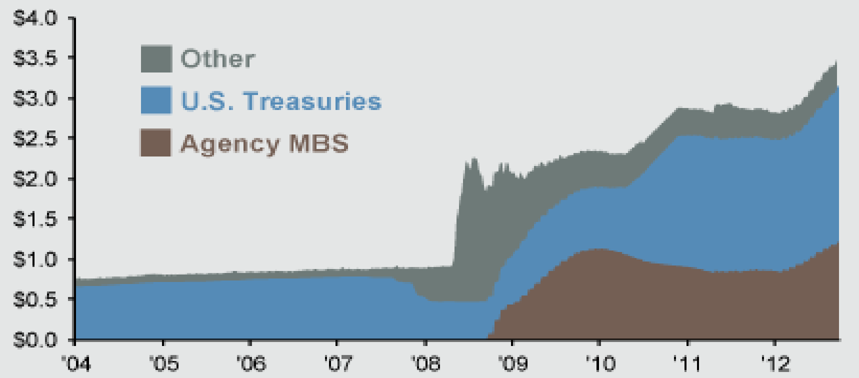
# Cash Flow Statistics

- **Days of Net Inflow : Days of Net Outflow**
  **189 days : 122 days**
  **1.55 : 1.00**
- **Average Change in Daily Cash $ 808,850**
- **Standard Deviation of Daily Change $34,480,146**

# Economic Update

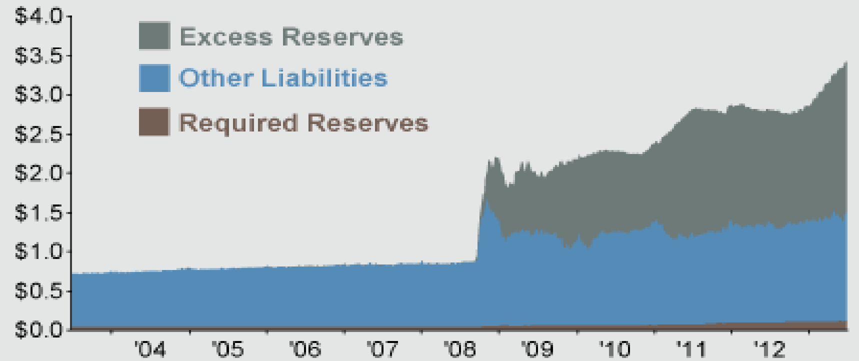
1. What is up with the Fed?
2. Federal Debt & Deficit
3. Markets
4. Economic Game Changers
    1. Housing & Population
    2. Energy Renaissance
    3. Industrial Renaissance
    4. 3D Printing

## Fed's Balance Sheet: Assets
$ trillions

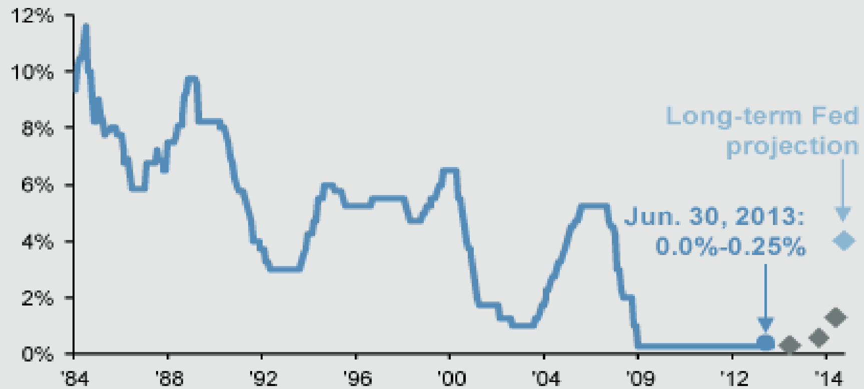



## Money Multiplier
M2 / Monetary Base


## Fed's Balance Sheet: Liabilities
$ trillions



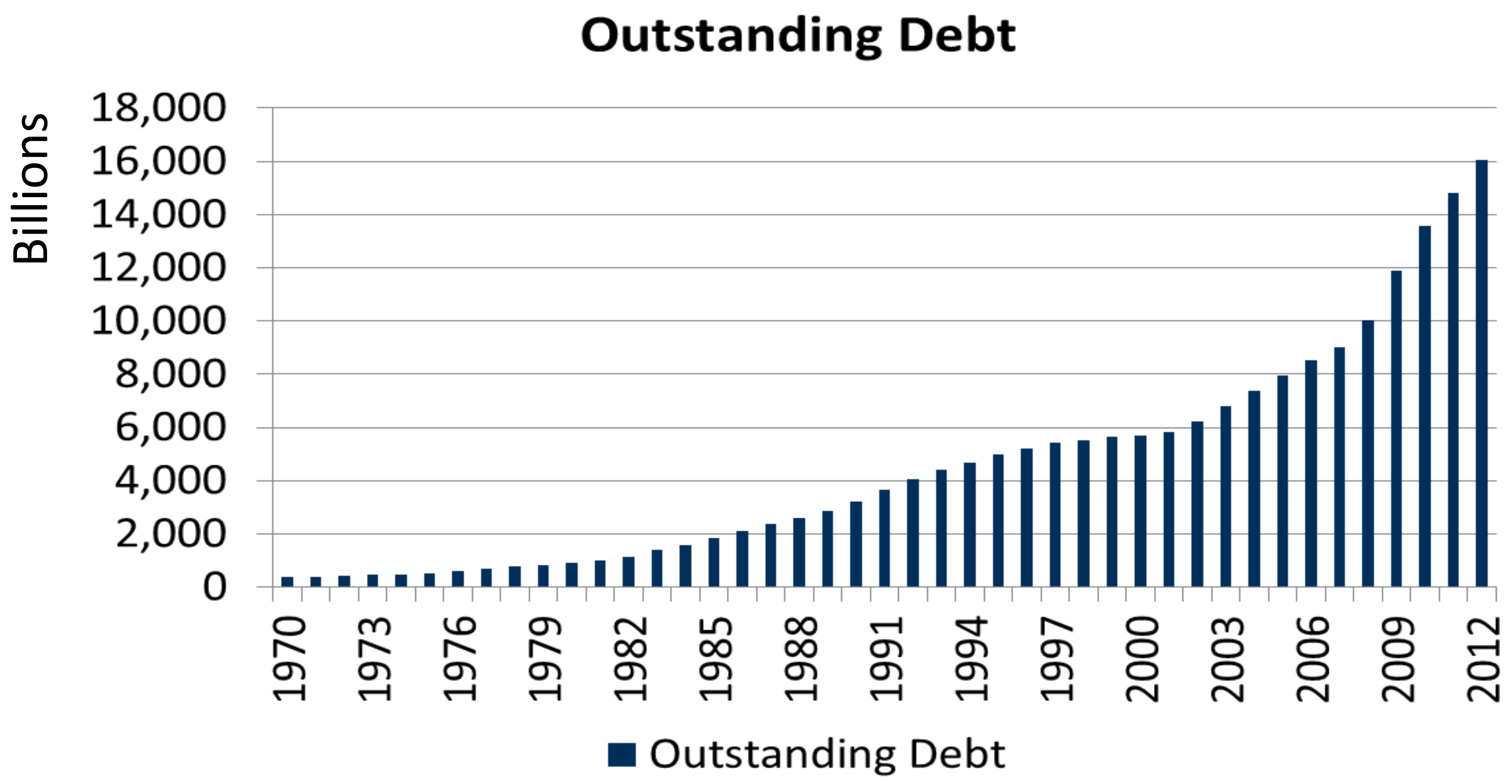

## Federal Funds Rate & FOMC Interest Rate Projections



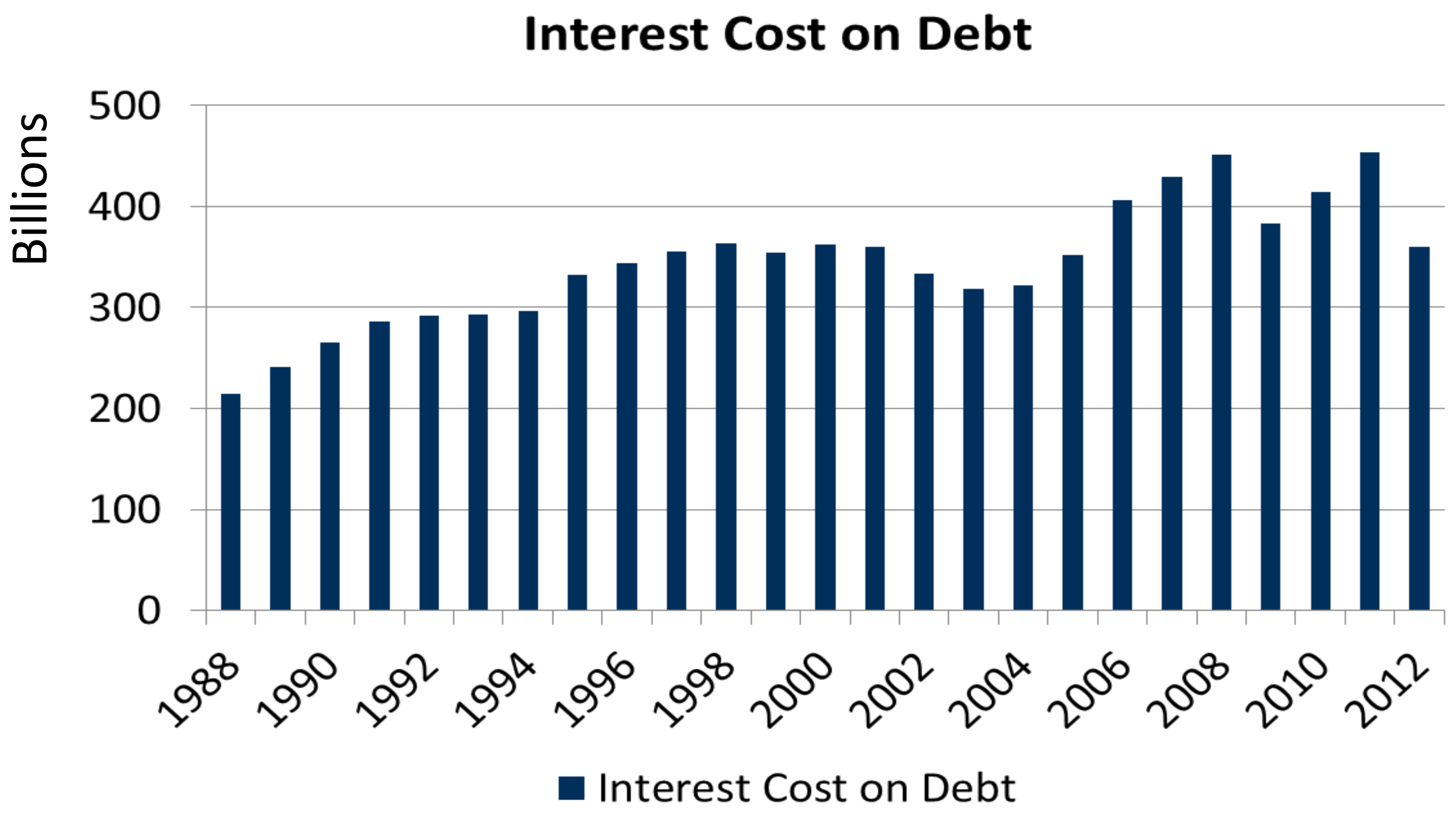

Source: Federal Reserve, FactSet, J.P. Morgan Asset Management.

Monetary base is defined as the total amount of a currency that is either circulated in the hands of the public or in the commercial bank deposits held in the central bank's reserves. Money multiplier defined as M2 divided by the monetary base. Long-term Fed projection is the average of expectations of FOMC members. Other liabilities of the Federal Reserve primarily consist of the monetary base.

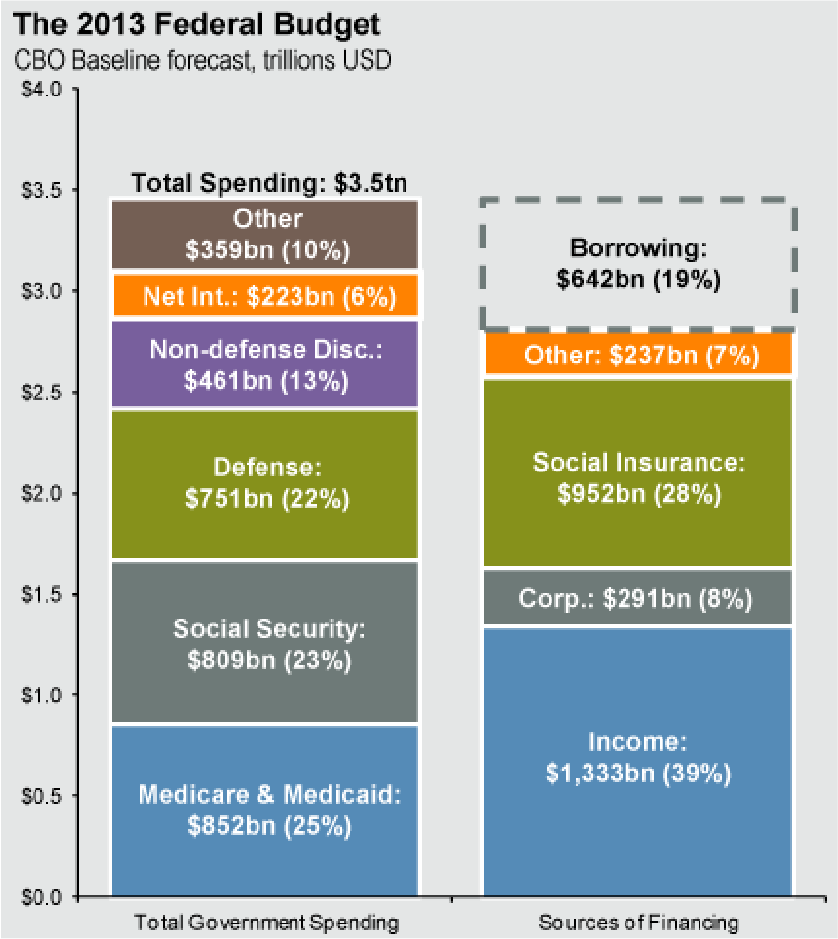
Data are as of 6/30/13.

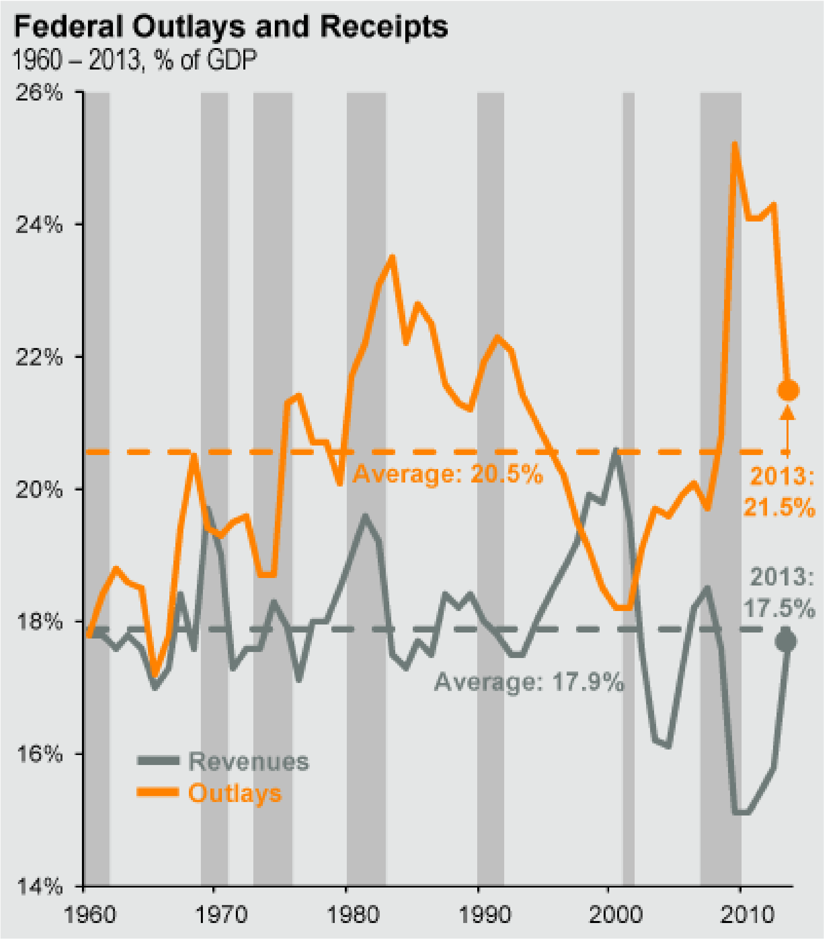



Source: Treasury Direct – Graph represents the total outstanding direct, excluding non direct debt and unmet entitlement obligations.




Source: Treasury Direct – Graph represents the total interest cost on direct debt, excluding non direct debt and unmet entitlement obligations.




Source: U.S. Treasury, BEA, OMB, CBO, J.P. Morgan Asset Management.

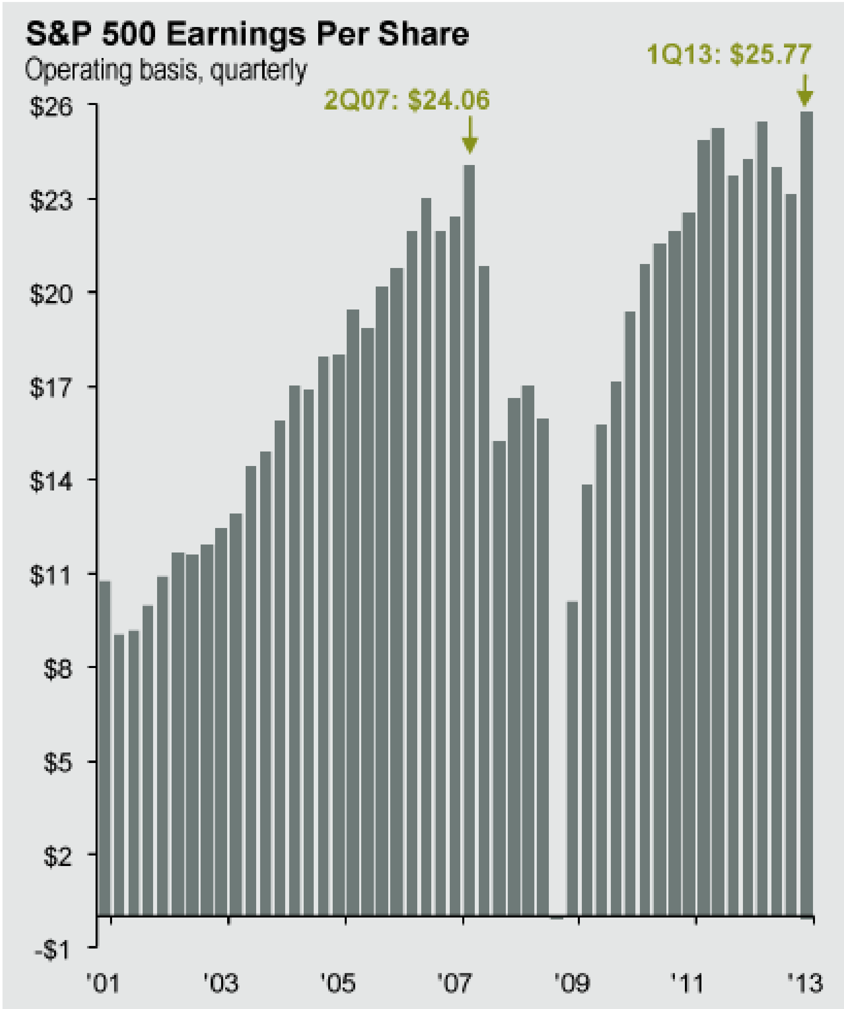
2013 Federal Budget is based on the CBO's May 2013 Baseline Scenario. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement.

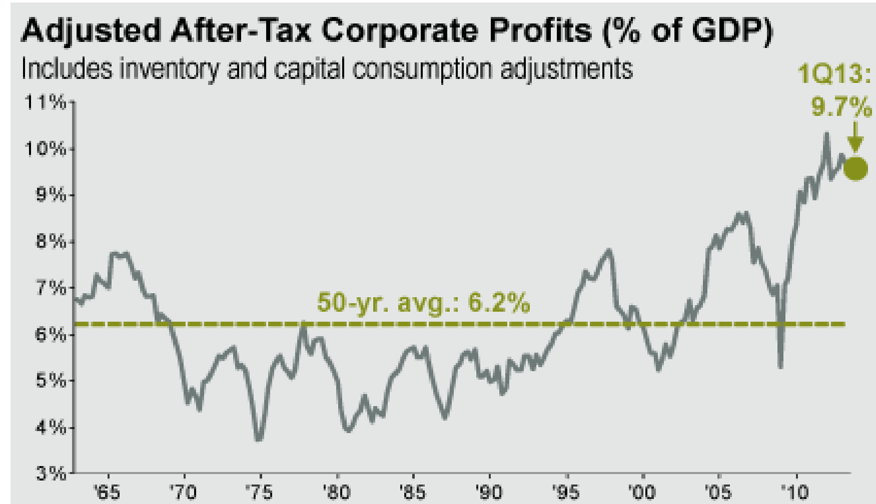
Note: Years shown are fiscal years (Oct. 1 through Sep. 30).

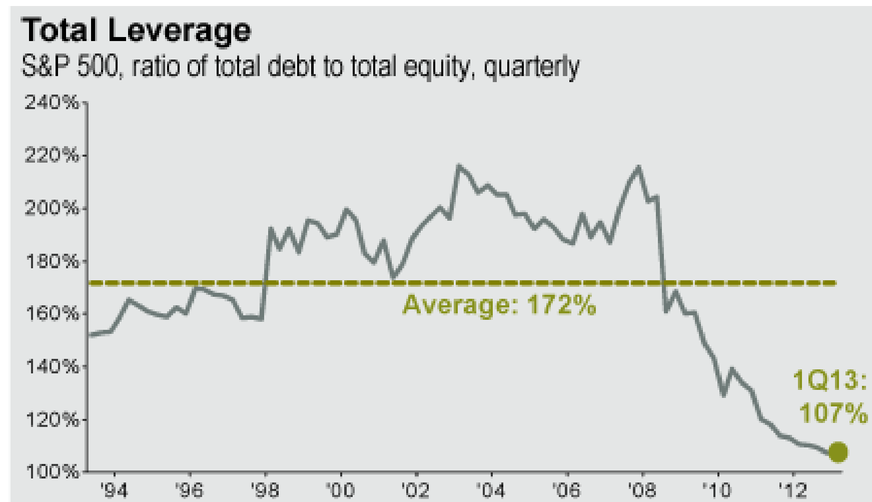
Data are as of 6/30/13.


Source: Bloomberg LP – Graph show the S&P 500 index on a month end closing basis with a logarithmic scale. The line study is the linear regression with the 1st and 2nd standard deviations.


Source: Bloomberg LP – Graph show the S&P 500 index on a month end closing basis with a logarithmic scale. The lines are for informational purposes only and are not intended to be exact or accurate, but are to simply indicate markets movements.



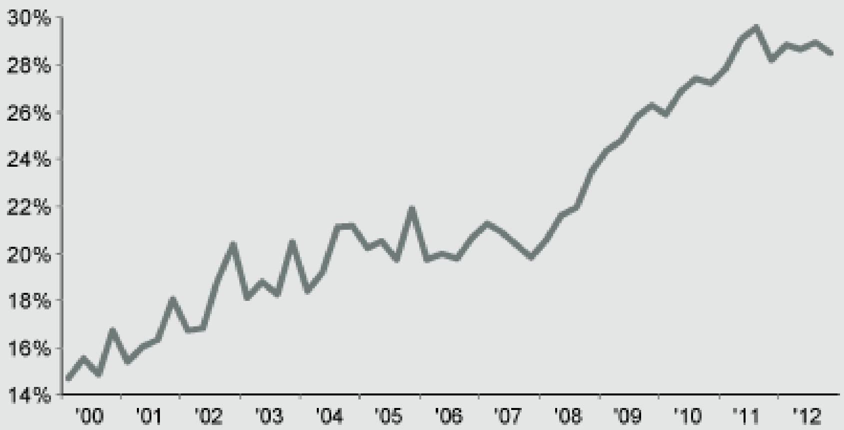




Source: Standard & Poor's, Compustat, BEA, J.P. Morgan Asset Management.
EPS levels are based on operating earnings per share. Most recently available data is 4Q12 as 1Q13 are Standard & Poor's estimates with 99.7% o
companies reported.
Past performance is not indicative of future returns.

Data are as of 6/30/13.

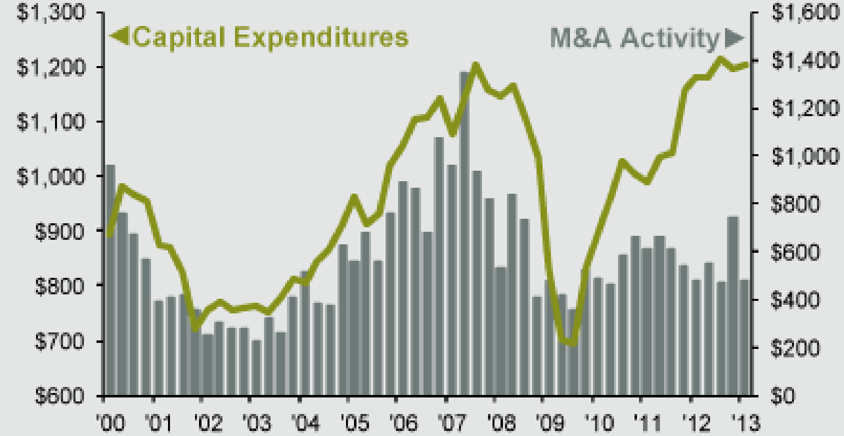
## Corporate Cash as a % of Current Assets

S&P 500 companies – cash and cash equivalents, quarterly




## Corporate Growth

$bn, nonfarm nonfinancial capex, quarterly value of deals completed

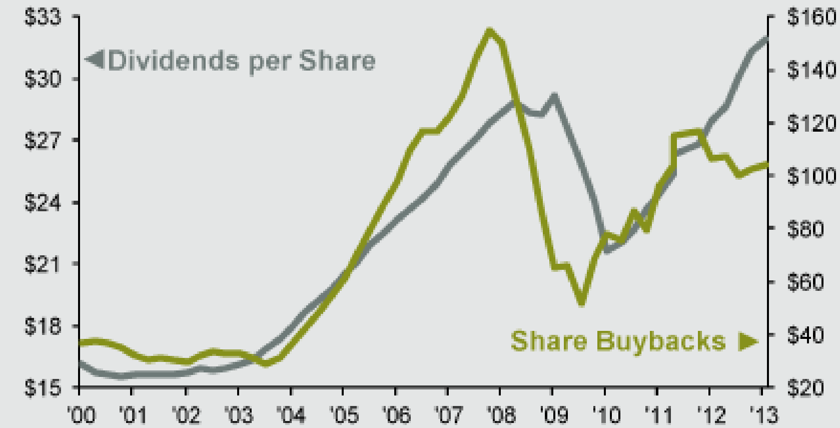



## Dividend Payout Ratio

S&P 500 companies, LTM


## Cash Returned to Shareholders

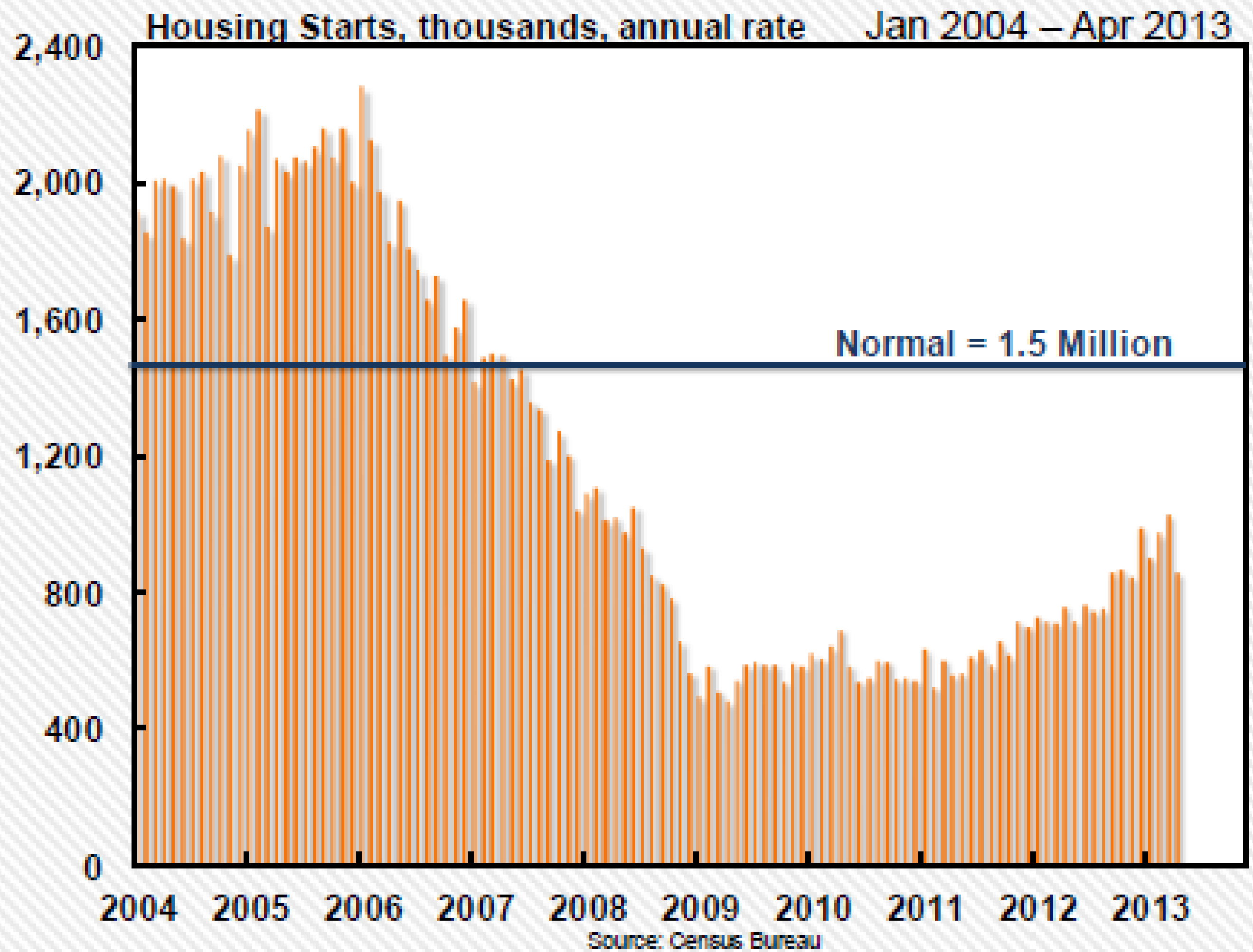
S&P 500 companies, rolling 4-quarter averages, billions USD



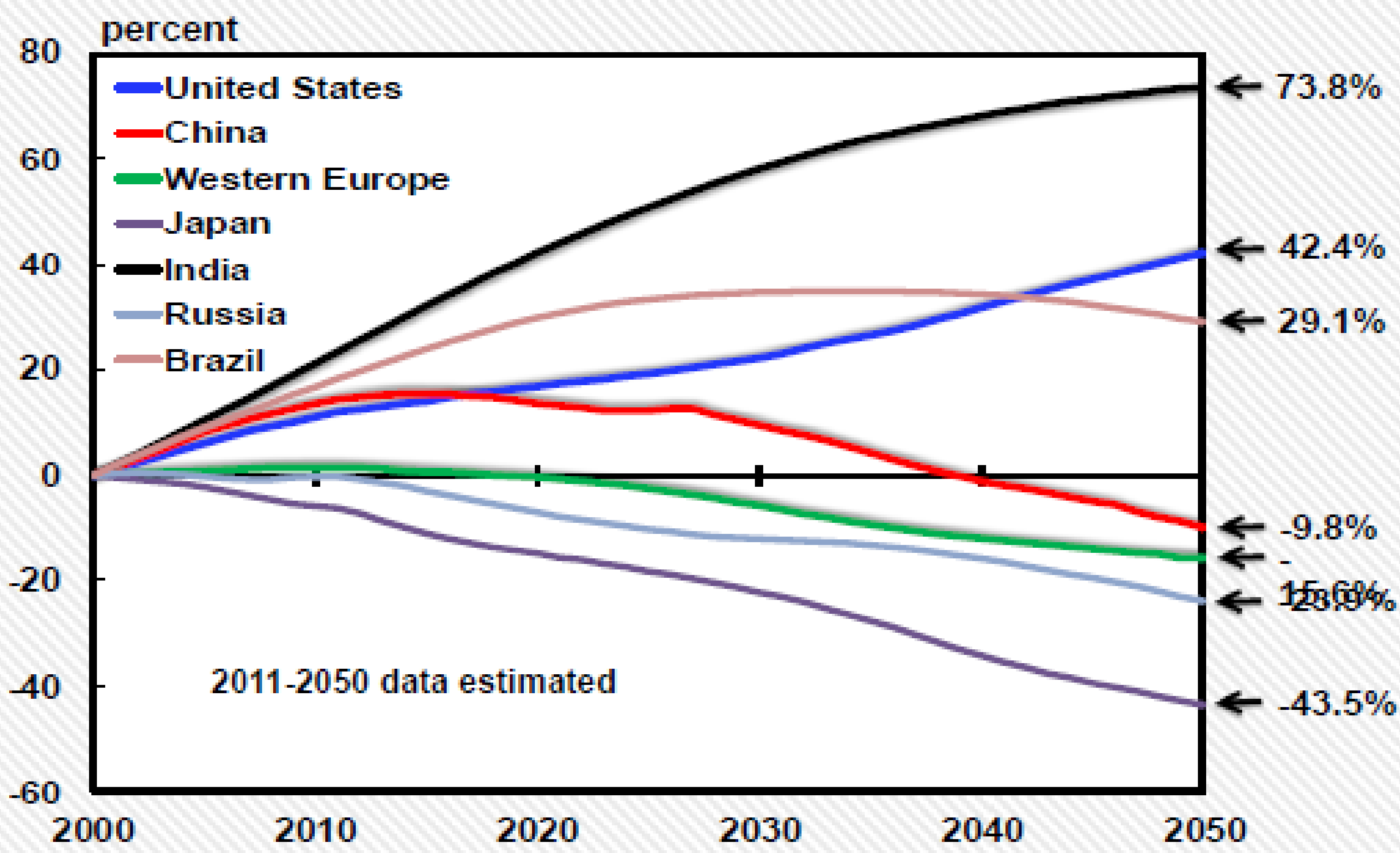

Source: Standard & Poor's, FRB, Bloomberg, FactSet, J.P. Morgan Securities, J.P. Morgan Asset Management.

(Top left) Standard & Poor's, FactSet, J.P. Morgan Asset Management. (Top right) M&A activity is the quarterly value of deals completed and capital expenditures are for nonfarm nonfinancial corporate business. (Bottom left) Standard & Poor's, FactSet, J.P. Morgan Asset Management. (Bottom right) Standard & Poor's, Compustat, FactSet, J.P. Morgan Asset Management. Data are as of 6/30/13.

# Home Building Must "Boom" to Normalize

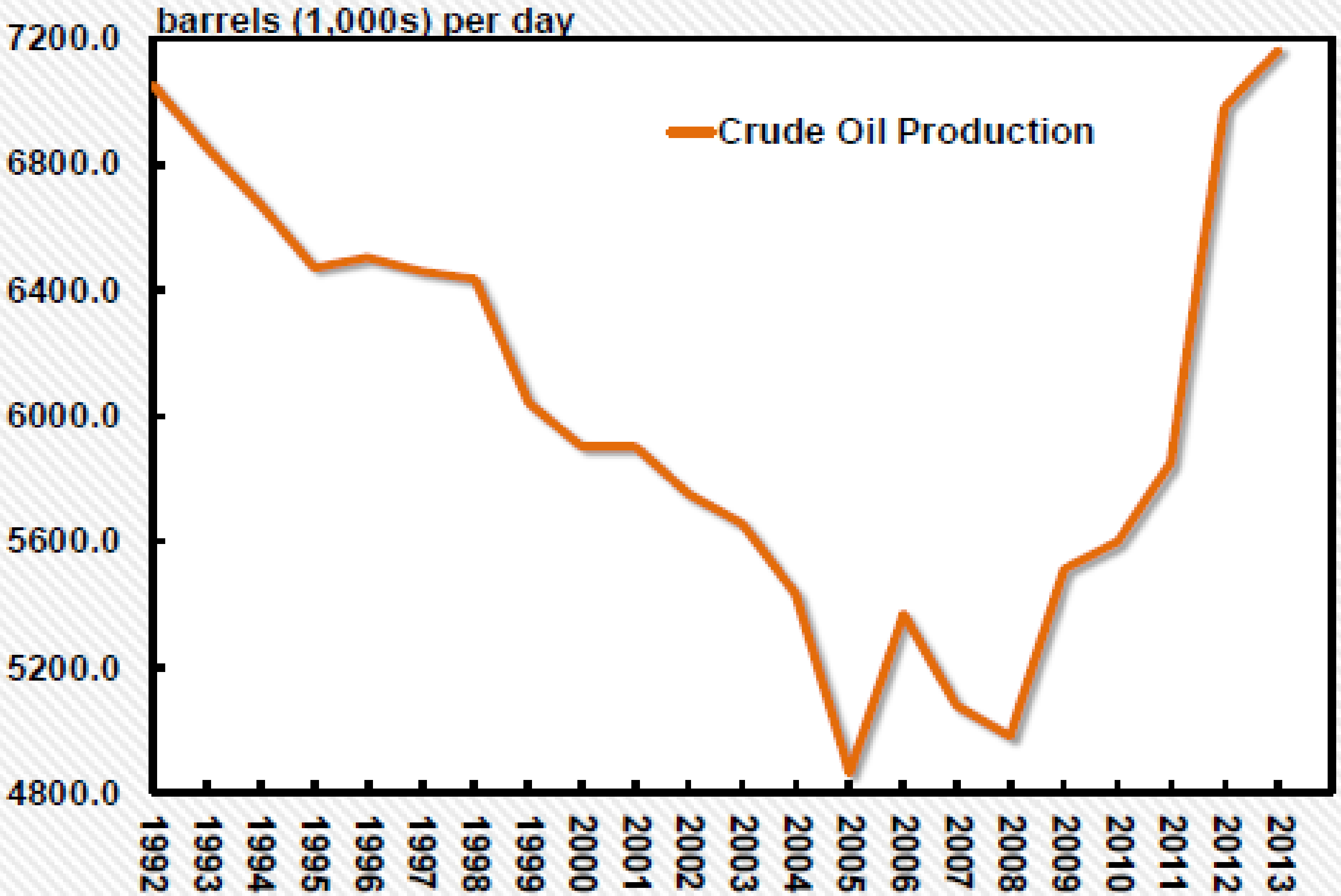


# World Labor Force Growth

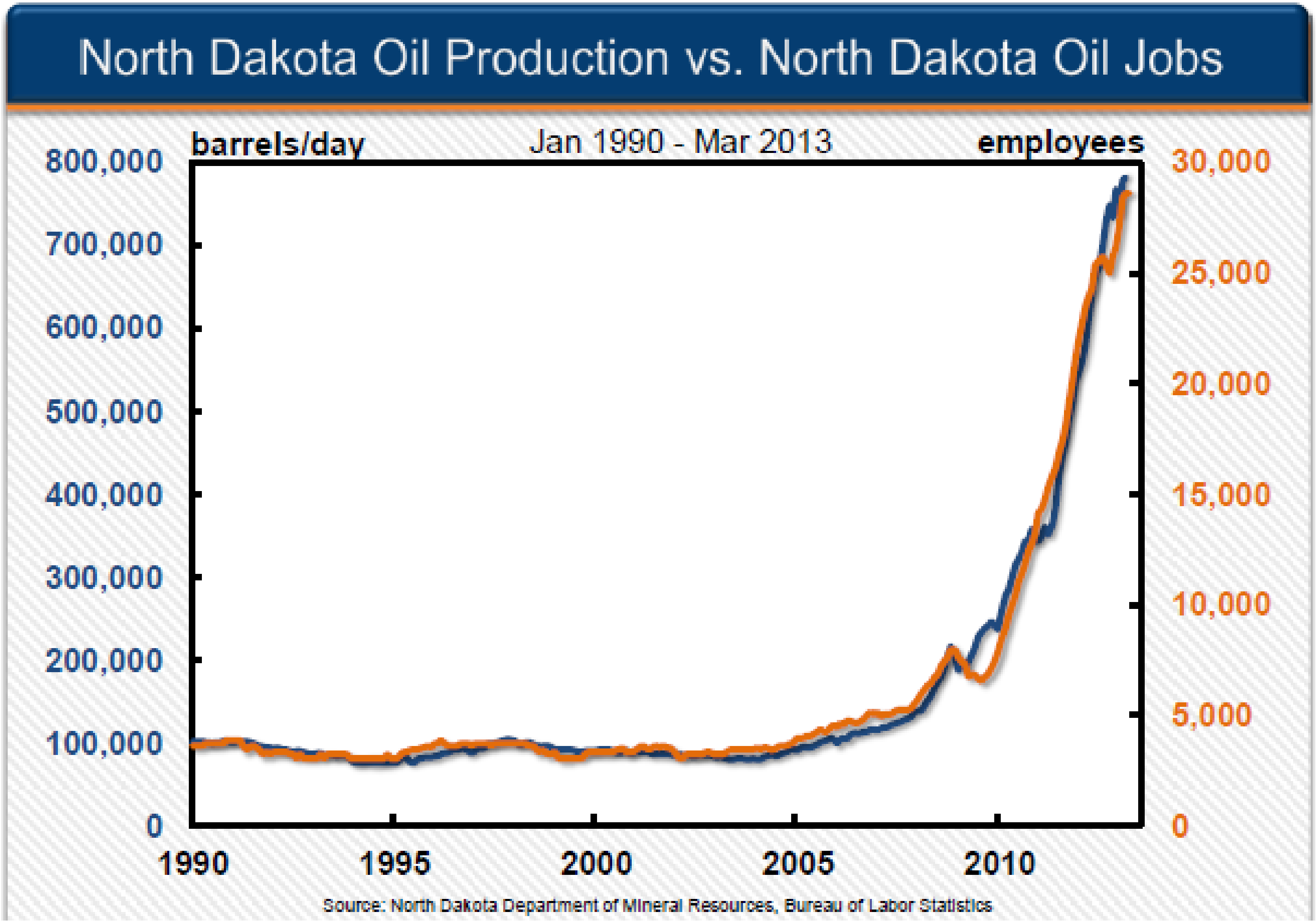



Source: Census Bureau

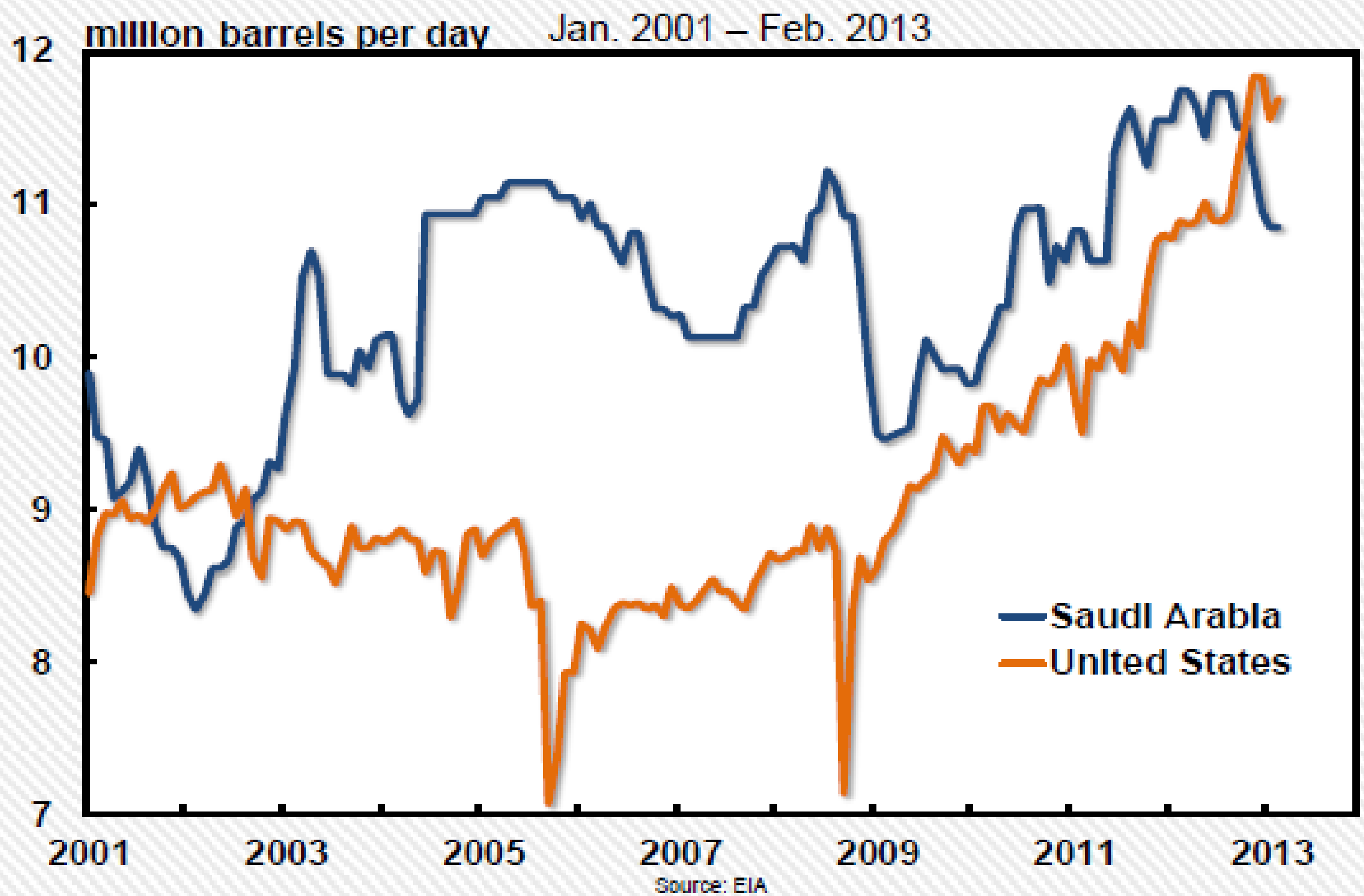
# U.S. Crude Oil Production, 1992 – May 2013




Source: Department of Energy, FT Advisors

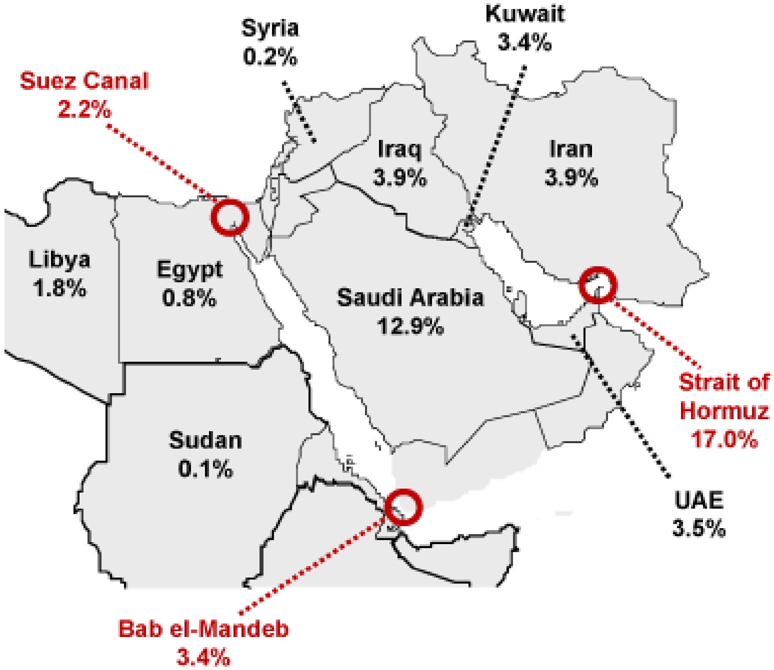

North Dakota Oil Production vs. North Dakota Oil Jobs
barrels/day
Jan 1990 - Mar 2013
employees
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
0
30,000
25,000
20,000
15,000
10,000
5,000
0
1990
1995
2000
2005
2010
Source: North Dakota Department of Mineral Resources, Bureau of Labor Statistics

# Total Petroleum Production: Saudi Arabia vs. U.S.



## Middle East Energy Production & Chokepoints

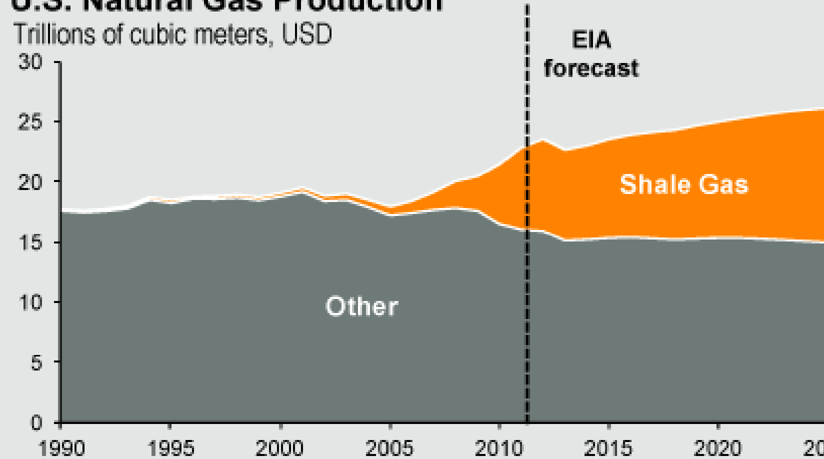
Percent of global liquid fuel production, 2012*




| Major Producers | | | | Major Consumers | | | |
|---|---|---|---|---|---|---|---|
| Percent of global total, 2012 | | | | Percent of global total, 2012 | | | |
| Saudi Arabia | 13% | China | 5% | United States | 21% | India | 4% |
| United States | 12% | Canada | 4% | China | 11% | Saudi Arabia | 3% |
| Russia | 12% | Iran | 4% | Japan | 5% | Brazil | 3% |

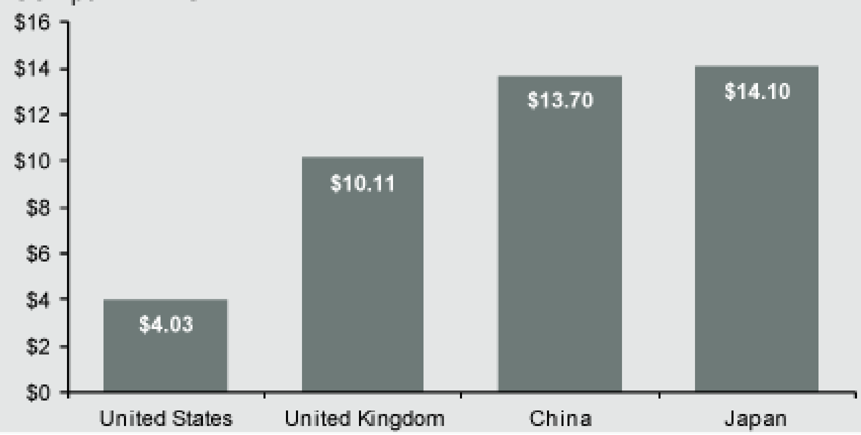
## U.S. Natural Gas Production

Trillions of cubic meters, USD




## Natural Gas Prices by Country

USD per mmBTU*



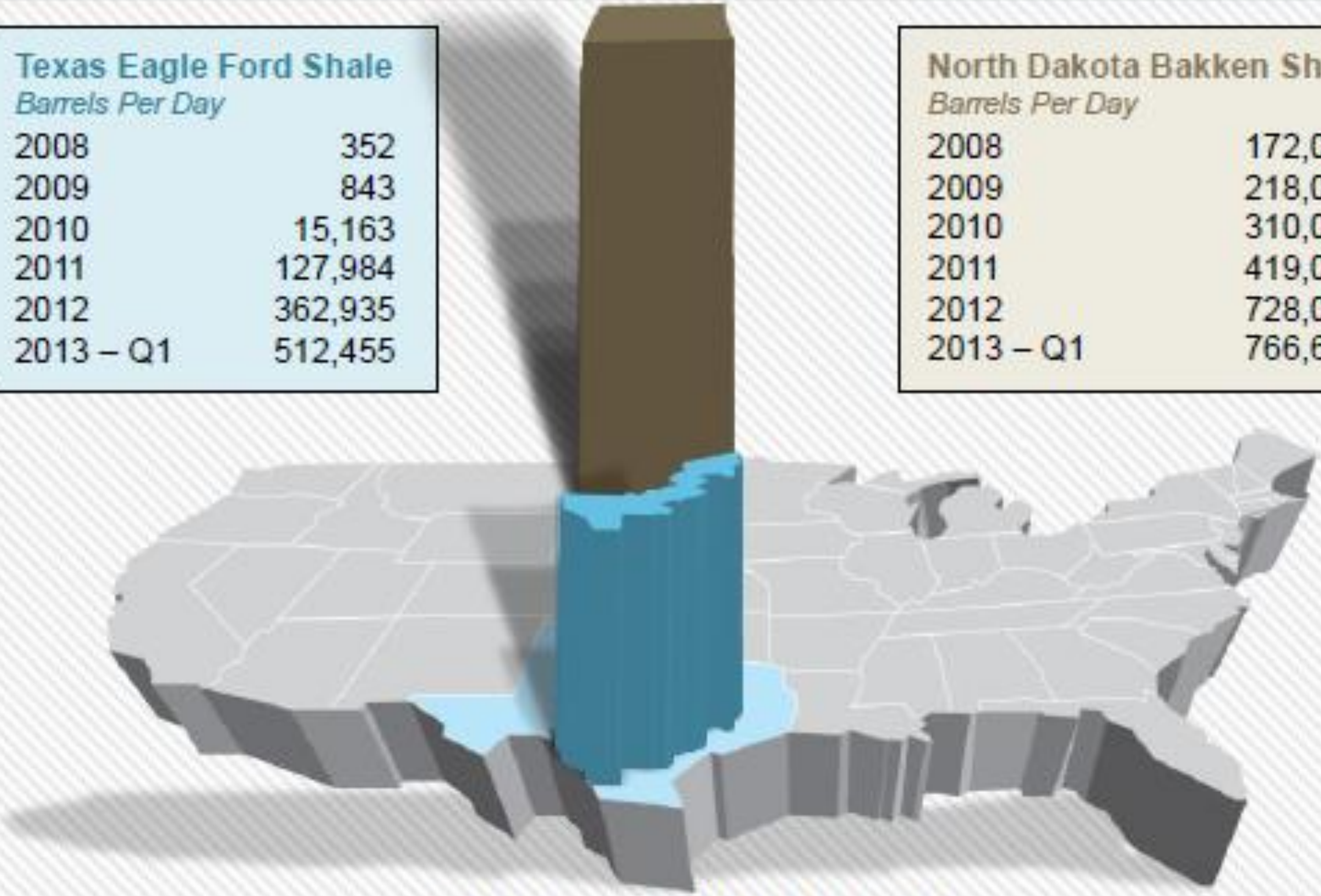

Source: EIA, J.P. Morgan Asset Management.
Forecasts are from the EIA Annual Energy Outlook 2013. *mmBTU represents 10,000 million British thermal units. Natural gas prices are as of June 2012. *Production numbers as of 2012, while chokepoints are 2011 data.

Data are as of 6/30/13.

# North Dakota Bakken and Texas Eagle Ford Shale

**Texas Eagle Ford Shale**
*Barrels Per Day*

| | |
|---|---|
| 2008 | 352 |
| 2009 | 843 |
| 2010 | 15,163 |
| 2011 | 127,984 |
| 2012 | 362,935 |
| 2013 – Q1 | 512,455 |



**North Dakota Bakken Shale**
*Barrels Per Day*

| | |
|---|---|
| 2008 | 172,000 |
| 2009 | 218,000 |
| 2010 | 310,000 |
| 2011 | 419,000 |
| 2012 | 728,000 |
| 2013 – Q1 | 766,663 |

Source: Railroad Commission of Texas, EIA, FT Advisors

## United States at Night


Source: NASA, FT Advisors

# Manufacturing Coming Back to the U.S.

| Company | Plant Location | Investment | Announced |
|---|---|---|---|
| • BMW | South Carolina | $900 Million | 1/12/2012 |
| • General Motors | Kansas City, KS | $600 Million | 1/28/2013 |
| • GE Aviation | MS, AL, OH | $580 Million | 2/13/2012 |
| • Sundrop Fuels | Louisville, KY | $450 Million | 2/20/2012 |
| • Toyota | Indiana | $400 Million | 2/08/2012 |
| • Timken | Stark County, OH | $225 Million | 2/28/2012 |
| • Welspun | Little Rock, AR | $100 Million | 2/25/2012 |
| • InBev | Missouri | $80 Million | 2/21/2012 |
| • Rolls Royce | Indianapolis, IN | $42 Million | 3/06/2012 |
| • Behr Iron & Metal | Illinois | $30 Million | 2/18/2012 |
| • Hiedtman Steel | Calvert, AL | $19 Million | 1/25/2012 |

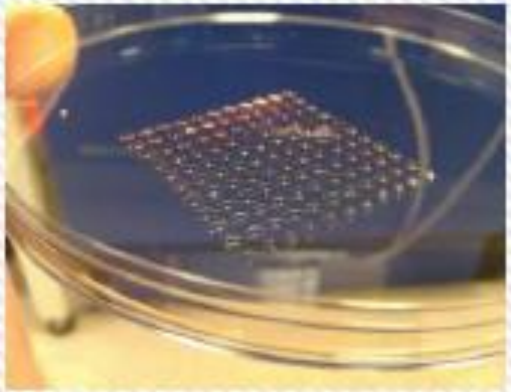
Source: BAC Merrill Lynch U.S. Manufacturing Renaissance, FT Advisors

# Manufacturing Coming Back to the U.S.

| Company | Plant Location | Investment | Announced |
|---|---|---|---|
| Samsung | Austin, TX | $4 Billion | 8/20/2012 |
| Michelin | SC | $750 Million | 4/10/2012 |
| Denso | MI,TX,IA,CA,ND | $750 Million | 1/15/2013 |
| Airbus | Mobile, AL | $600 Million | 7/2/2012 |
| Ford | Flat Rock, MI | $555 Million | 9/10/2012 |
| Apple | Nevada | $400 Million | 8/3/2012 |
| Chrysler | Indiana | $374 Million | 2/28/2013 |
| Chrysler | Michigan | $240 Million | 11/15/2012 |
| Starbucks | Augusta, GA | $175 Million | 3/21/2012 |
| NGK Ceramics | Mooresville, NC | $93 Million | 8/7/2012 |
| Ohio CAT | Ohio | $50 Million | 10/17/2012 |
| Denver Global | Denver, NC | $30.2 Million | 10/15/2012 |

Source: www.areadevelopment.com, FT Advisors

# 3D Printing

Source: theatlanticwire.com, Birds of Prey Northwest, LiveScience.com, medgadget.com, FT Advisors

# Wrap Up - Questions

- What is your thesis/projection on cash?
- Is it possible to make changes in your cash strategy?
- How do you start the conversation?

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